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4 **BEFORE THE INSURANCE COMMISSIONER**  
5 **OF THE STATE OF WASHINGTON**  
6

7 In the Matter of

No. G02-45

8 **THE APPLICATION REGARDING**  
9 **THE CONVERSION AND**  
10 **ACQUISITION OF CONTROL OF**  
11 **PREMERA BLUE CROSS AND**  
12 **ITS AFFILIATES**

**PRE-FILED DIRECT TESTIMONY**  
**OF MARTIN E. STAEHLIN**

11 I, Martin E. Staehlin, do hereby declare that the following facts are personally  
12 known to me and, if called upon to do so, I would testify to them.

13 1. I am now, and at all times pertinent herein was, a citizen of the United  
14 States and a resident of the State of Illinois, over the age of eighteen (18) years, and  
15 competent to testify in a court of law.

16 2. I am a Director of PricewaterhouseCoopers LLP (PwC). PwC contracted  
17 with the OIC Staff to assist in the analysis and evaluation of the application submitted  
18 by Premera.

19 3. I am a Fellow of the Society of Actuaries and a Member of the American  
20 Academy of Actuaries. I meet all standards for rendering Public Statements of  
21 Actuarial Opinion. I follow the Actuarial Standards of Practice to the extent that they  
22 directly or indirectly apply to any work product produced in the course of the  
23 engagement referenced above.  
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1           4.     I have attached to this instrument as Exhibit "S-22" a copy of my current  
2 curriculum vitae that summarizes my credentials and expertise.

3           5.     In connection with PwC's obligations under its contract with the OIC  
4 Staff, I participated in preparing several reports pertaining to my areas of expertise  
5 which contain my opinions and conclusions. I have attached to this instrument the  
6 following documents containing my opinions and conclusions:

7           a.     Exhibit "S-20" which is a copy of a final report entitled "Economic  
8 Impact Analysis of the Proposed Conversion of Premera Blue Cross for the State of  
9 Washington" dated October 27, 2003 in the preparation of which I participated.

10          b.     Exhibit "S-21" which is a copy of a supplemental report taking into  
11 consideration Premera's revisions to its Form A Statement that were submitted on  
12 February 5, 2004 entitled "Economic Impact Analysis of the Proposed Conversion of  
13 Premera Blue Cross for the State of Washington: Report Addendum" and dated  
14 February 27, 2004. I participated in the preparation of Exhibit "S-21."

15          c.     Exhibit "S-23" which is a copy of an attachment to a legal opinion with  
16 respect to the legal issues arising if Premera's Application were approved concerning  
17 the allocation of consideration between the proposed charitable organizations of the  
18 State of Washington and the State of Alaska prepared by Cantilo & Bennett, L.L.P.,  
19 dated February 19, 2004 comprising a memorandum to Jim Odiorne from me dated  
20 February 18, 2004 "Subject: Premera Share Allocation." I prepared Exhibit "S-23."

21          d.     Exhibit "S-24" which is a copy of a report supplemental to Exhibit "S-23"  
22 entitled "Actuarial Analysis of the Proposed Conversion of Premera Blue Cross for the  
23 State of Washington" dated March 26, 2004 that comprises the backup for the  
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1 allocation methodologies utilized in Exhibit "S-23." I prepared Exhibit "S-24" in  
2 conjunction with the PwC consulting team.

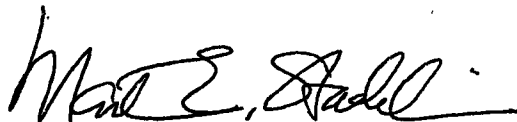
3 6. I contributed in the preparation of the four reports referenced as Exhibits  
4 "S-20", "S-21", "S-23" and "S-24". I principally participated in Exhibits "S-21", "S-  
5 23" and "S-24". However, regarding Exhibit "S-20", my primary responsibility was,  
6 and therefore my testimony is, limited to participation in the preparation of the  
7 following Sections: Executive Summary; Chapter 4 on Regulation; Chapter 7 on Line  
8 of Business Operations; and Chapter 11 on Conclusions.

9 7. Exhibits "S-20," "S-21" "S-22," "S-23," and "S-24" are incorporated  
10 herein as if set forth verbatim.

11 8. In addition to the above, I may testify in regard to the future process  
12 necessary in relation to resolution of the share allocation of Premera Blue Cross into  
13 appropriate allocation percentages for distribution of the shares of the converted  
14 company assuming that Premera's application is approved.

15 I declare under penalty of perjury under the laws of the State of Washington  
16 that the foregoing is true and correct.

17 Dated March 29, 2004 at Chicago, Illinois.

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20 MARTIN E. STAEHLIN